

**ESHB 1044 - S AMD 668**  
By Senator Deccio

NOT ADOPTED 04/23/2005

1 Strike everything after the enacting clause and insert the  
2 following:

3 "NEW SECTION. **Sec. 1.** The legislature recognizes that returns on  
4 the investment of retirement plan assets are volatile, and market  
5 volatility is reflected in variations in the funded status of the state  
6 retirement plans over time. The legislature also recognizes that the  
7 long-term liability in the plans 1 of the public employees' retirement  
8 system and the teachers' retirement system remains independent from  
9 short-term investment returns in the market. The legislature seeks to  
10 avoid contribution rate volatility that may unfairly benefit or burden  
11 particular groups of taxpayers with disproportionate responsibilities  
12 for retiring the unfunded liability in the plans 1. Therefore, it is  
13 the intent of the legislature to provide for the systematic payment of  
14 the plans 1 unfunded liability in a manner that promotes contribution  
15 rate adequacy and stability for the affected systems over time.

16 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.45 RCW  
17 to read as follows:

18 (1) There shall be no suspension of those portions of the basic  
19 state and employer contribution rates that are necessary to pay for the  
20 unfunded actuarial accrued liability for plan 1 of the public  
21 employees' retirement system for the following periods: From July 1,  
22 2005, through June 30, 2009, for the public employees' retirement  
23 system; from July 1, 2006, through June 30, 2009, for the public safety  
24 employees' retirement system; and from September 1, 2005, through  
25 August 31, 2009, for the school employees' retirement system.

26 (2) There shall be no suspension of those portions of the basic  
27 state and employer contribution rates that are necessary to pay for the  
28 unfunded actuarial accrued liability for plan 1 of the teachers'

1 retirement system for the period beginning September 1, 2005, and  
2 ending August 31, 2009.

3 NEW SECTION. **Sec. 3.** A new section is added to chapter 41.45 RCW  
4 to read as follows:

5 (1) Beginning July 1, 2009, a minimum 2.75 percent contribution is  
6 established as part of the basic state and employer contribution rate  
7 for the public employees' retirement system, to be used for the sole  
8 purpose of amortizing the unfunded actuarial accrued liability in the  
9 public employees' retirement system plan 1. This minimum contribution  
10 rate shall remain effective until the actuarial value of assets equals  
11 one hundred twenty-five percent of the actuarial accrued liability or  
12 June 30, 2024, whichever comes first.

13 (2) Beginning July 1, 2009, a minimum 2.75 percent contribution is  
14 established as part of the basic state and employer contribution rate  
15 for the public safety employees' retirement system, to be used for the  
16 sole purpose of amortizing the unfunded actuarial accrued liability in  
17 the public employees' retirement system plan 1. This minimum  
18 contribution rate shall remain effective until the actuarial value of  
19 assets equals one hundred twenty-five percent of the actuarial accrued  
20 liability for the public employees' retirement system plan 1 or June  
21 30, 2024, whichever comes first.

22 (3) Beginning September 1, 2009, a minimum 2.75 percent  
23 contribution is established as part of the basic state and employer  
24 contribution rate for the school employees' retirement system, to be  
25 used for the sole purpose of amortizing the unfunded actuarial accrued  
26 liability in the public employees' retirement system plan 1. This  
27 minimum contribution rate shall remain effective until the actuarial  
28 value of assets equals one hundred twenty-five percent of the actuarial  
29 accrued liability for the public employees' retirement system plan 1 or  
30 June 30, 2024, whichever comes first.

31 (4) Beginning September 1, 2009, a minimum 5.00 percent  
32 contribution is established as part of the basic state and employer  
33 contribution rate for the teachers' retirement system, to be used for  
34 the sole purpose of amortizing the unfunded actuarial accrued liability  
35 in the teachers' retirement system plan 1. This minimum contribution  
36 rate shall remain effective until the actuarial value of assets equals

1 one hundred twenty-five percent of the actuarial accrued liability for  
2 the teachers' retirement system plan 1 or June 30, 2024, whichever  
3 comes first.

4 (5) The minimum contribution rates for amortizing the unfunded  
5 liability in the plans 1 may exceed, but shall not drop below those  
6 specified in this section. Upon completion of each biennial actuarial  
7 valuation, the state actuary shall review the appropriateness of the  
8 minimum contribution rates and recommend to the legislature any  
9 adjustments as may be needed due to material changes in benefits or  
10 actuarial assumptions, methods, or experience.

11 **Sec. 4.** RCW 41.31.020 and 1998 c 340 s 2 are each amended to read  
12 as follows:

13 ~~((1) The gain sharing increase amount shall be the amount of~~  
14 ~~increase, rounded to the nearest cent, that can be fully funded in~~  
15 ~~actuarial present value by the amount of extraordinary investment~~  
16 ~~gains, if any.))~~ The amount of extraordinary investment gains shall be  
17 calculated as follows:

18 ~~((a) One half of))~~ (1) The sum of the value of the net assets held  
19 in trust for pension benefits in the teachers' retirement system plan  
20 1 fund and the public employees' retirement system plan 1 fund at the  
21 close of the previous state fiscal year;

22 ~~((b))~~ (2) Multiplied by the amount which the compound average of  
23 investment returns on those assets over the previous four state fiscal  
24 years exceeds ten percent.

25 ~~((2) The gain sharing increase amount for July 1998, as provided~~  
26 ~~for in RCW 41.31.010, is ten cents.))~~

27 **Sec. 5.** RCW 41.45.060 and 2003 c 294 s 10 and 2003 c 92 s 3 are  
28 each reenacted and amended to read as follows:

29 (1) The state actuary shall provide actuarial valuation results  
30 based on the economic assumptions and asset value smoothing technique  
31 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030  
32 or 41.45.035.

33 (2) Not later than September 30, 2002, and every two years  
34 thereafter, consistent with the economic assumptions and asset value  
35 smoothing technique included in RCW 41.45.035 or adopted under RCW

1 41.45.030 or 41.45.035, the council shall adopt and may make changes  
2 to:

3 (a) A basic state contribution rate for the law enforcement  
4 officers' and fire fighters' retirement system plan 1;

5 (b) Basic employer contribution rates for the public employees'  
6 retirement system, the teachers' retirement system, and the Washington  
7 state patrol retirement system to be used in the ensuing biennial  
8 period; and

9 (c) A basic employer contribution rate for the school employees'  
10 retirement system for funding both that system and the public  
11 employees' retirement system plan 1.

12 The contribution rates adopted by the council shall be subject to  
13 revision by the legislature.

14 (3) The employer and state contribution rates adopted by the  
15 council shall be the level percentages of pay that are needed:

16 (a) To fully amortize the total costs of the public employees'  
17 retirement system plan 1, the teachers' retirement system plan 1, and  
18 the law enforcement officers' and fire fighters' retirement system plan  
19 1 not later than June 30, 2024, except as provided in subsection (5) of  
20 this section; and

21 (b) To also continue to fully fund the public employees' retirement  
22 system plans 2 and 3, the teachers' retirement system plans 2 and 3,  
23 and the school employees' retirement system plans 2 and 3 in accordance  
24 with RCW 41.45.061, 41.45.067, and this section.

25 (4) The aggregate actuarial cost method shall be used to calculate  
26 a combined plan 2 and 3 employer contribution rate and a Washington  
27 state patrol retirement system contribution rate.

28 (5) An amount equal to the amount of extraordinary investment gains  
29 as defined in RCW 41.31.020 shall be used to shorten the amortization  
30 period for the public employees' retirement system plan 1 and the  
31 teachers' retirement system plan 1.

32 (6) The council shall immediately notify the directors of the  
33 office of financial management and department of retirement systems of  
34 the state and employer contribution rates adopted. The rates shall be  
35 effective for the ensuing biennial period, subject to any legislative  
36 modifications.

37 ~~((+6))~~ (7) The director of the department of retirement systems  
38 shall collect the rates established in RCW 41.45.053 through June 30,

1 2003. Thereafter, the director shall collect those rates adopted by  
2 the council. The rates established in RCW 41.45.053, or by the  
3 council, shall be subject to revision by the council.

4 **Sec. 6.** RCW 41.45.060 and 2004 c 242 s 39 are each amended to read  
5 as follows:

6 (1) The state actuary shall provide actuarial valuation results  
7 based on the economic assumptions and asset value smoothing technique  
8 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030  
9 or 41.45.035.

10 (2) Not later than September 30, 2002, and every two years  
11 thereafter, consistent with the economic assumptions and asset value  
12 smoothing technique included in RCW 41.45.035 or adopted under RCW  
13 41.45.030 or 41.45.035, the council shall adopt and may make changes  
14 to:

15 (a) A basic state contribution rate for the law enforcement  
16 officers' and fire fighters' retirement system plan 1;

17 (b) Basic employer contribution rates for the public employees'  
18 retirement system, the teachers' retirement system, and the Washington  
19 state patrol retirement system to be used in the ensuing biennial  
20 period; and

21 (c) A basic employer contribution rate for the school employees'  
22 retirement system and the public safety employees' retirement system  
23 for funding both those systems and the public employees' retirement  
24 system plan 1.

25 The contribution rates adopted by the council shall be subject to  
26 revision by the legislature.

27 (3) The employer and state contribution rates adopted by the  
28 council shall be the level percentages of pay that are needed:

29 (a) To fully amortize the total costs of the public employees'  
30 retirement system plan 1, the teachers' retirement system plan 1, and  
31 the law enforcement officers' and fire fighters' retirement system plan  
32 1 not later than June 30, 2024, except as provided in subsection (5) of  
33 this section; and

34 (b) To fully fund the public employees' retirement system plans 2  
35 and 3, the teachers' retirement system plans 2 and 3, the public safety  
36 employees' retirement system plan 2, and the school employees'

1 retirement system plans 2 and 3 in accordance with RCW 41.45.061,  
2 41.45.067, and this section.

3 (4) The aggregate actuarial cost method shall be used to calculate  
4 a combined plan 2 and 3 employer contribution rate and a Washington  
5 state patrol retirement system contribution rate.

6 (5) An amount equal to the amount of extraordinary investment gains  
7 as defined in RCW 41.31.020 shall be used to shorten the amortization  
8 period for the public employees' retirement system plan 1 and the  
9 teachers' retirement system plan 1.

10 (6) The council shall immediately notify the directors of the  
11 office of financial management and department of retirement systems of  
12 the state and employer contribution rates adopted. The rates shall be  
13 effective for the ensuing biennial period, subject to any legislative  
14 modifications.

15 ((+6+)) (7) The director shall collect those rates adopted by the  
16 council. The rates established in RCW 41.45.054, or by the council,  
17 shall be subject to revision by the legislature.

18 NEW SECTION. Sec. 7. The following acts or parts of acts are each  
19 repealed:

20 (1) RCW 41.31.010 (Annual pension increases--Increased by gain-  
21 sharing increase amount) and 1998 c 340 s 1;

22 (2) RCW 41.31A.010 (Definitions) and 2000 c 247 s 407 & 1998 c 341  
23 s 311;

24 (3) RCW 41.31A.020 (Extraordinary investment gain--Credited to  
25 member accounts--Persons eligible--Calculation of amount--Contractual  
26 right not granted) and 2003 c 294 s 4, 2000 c 247 s 408, & 1998 c 341  
27 s 312;

28 (4) RCW 41.31A.030 (Retroactive extraordinary investment gain--  
29 Credited to member accounts--Persons eligible--Calculation of amount--  
30 Contractual right not granted) and 1998 c 341 s 313; and

31 (5) RCW 41.31A.040 (Retroactive extraordinary investment gain--  
32 Credited to member accounts--Persons eligible--Calculation of amount--  
33 Contractual right not granted) and 2000 c 247 s 409.

34 NEW SECTION. Sec. 8. (1) Section 3 of this act takes effect July  
35 1, 2009.

36 (2) Section 6 of this act takes effect July 1, 2006.

1        NEW SECTION.    **Sec. 9.**    Section 5 of this act expires July 1, 2006.

2        NEW SECTION.    **Sec. 10.**    Sections 1 and 2 of this act are necessary  
3    for the immediate preservation of the public peace, health, or safety,  
4    or support of the state government and its existing public  
5    institutions, and take effect July 1, 2005."

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**NOT ADOPTED 04/23/2005**

6        On page 1, line 1 of the title, after "methodology;" strike the  
7    remainder of the title and insert "amending RCW 41.31.020 and  
8    41.45.060; reenacting and amending RCW 41.45.060; adding new sections  
9    to chapter 41.45 RCW; creating a new section; repealing RCW 41.31.010,  
10    41.31A.010, 41.31A.020, 41.31A.030, and 41.31A.040; providing effective  
11    dates; providing an expiration date; and declaring an emergency."

EFFECT:    The underlying bill proposes that payments towards the unfunded liabilities in PERS & TRS plans 1 be suspended, and proposes delaying recognition of the cost of future gain-sharing benefits. This striking amendment does three things:    (1) Requires biennial contributions be made to plan unfunded liabilities and prohibits the skipping of such payments; (2) eliminates gain-sharing and dedicates "extraordinary gains" to paying off the plan 1 unfunded liabilities more quickly; and (3) establishes minimum employer contribution rates for unfunded liability payments beginning in FY 2009.

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